



Dairy Marketing Branch

916/341-5988

www.cdfa.ca.gov/dairy

Recorded Milk Prices

(916) 442-MILK or (800) 503-3490

Economics/Pricing

Eric Erba

eerba@cdfa.ca.gov

Tom Gossard

tgossard@cdfa.ca.gov

Cost of Production

Candace Gates

cgates@cdfa.ca.gov

Manufacturing Costs

Ed Hunter

ehunter@cdfa.ca.gov

Statistics

Karen Dapper

kdapper@cdfa.ca.gov

Pool Operations

Don Shippelhoute

dshippelhoute@cdfa.ca.gov

The Dairy Council of California

916/263-3560

www.dairycouncilofca.org

California Milk Advisory Board

415/871-6455

www.calif-dairy.com

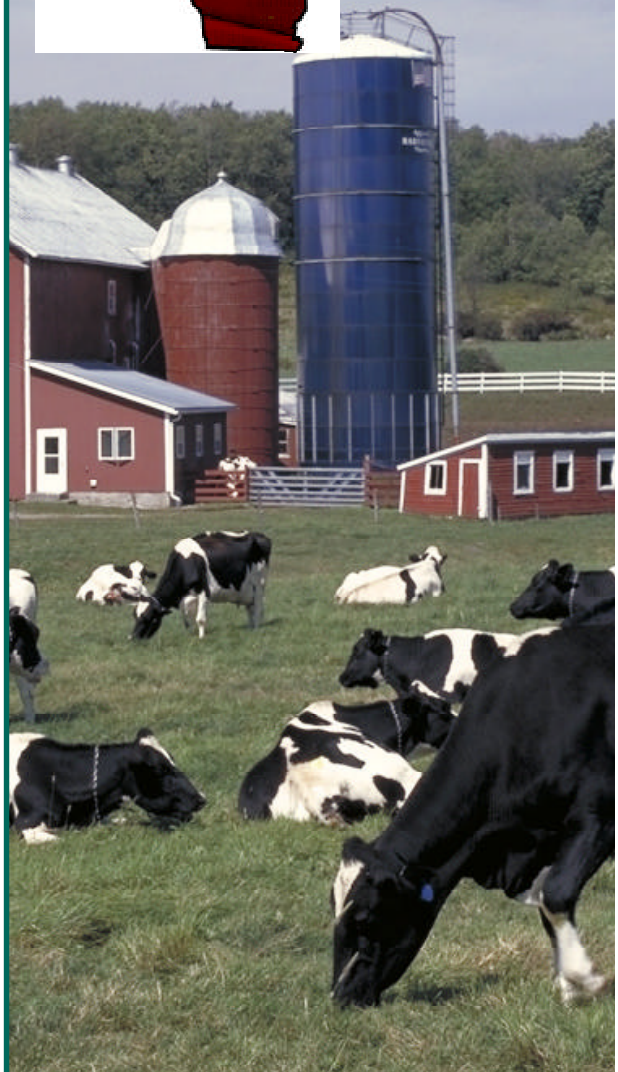
California Fluid Milk Processor Advisory Board

510/883-1085

www.gotmilk.com



A Look At California's Dairy Landscape in 2003



A Look at California's Dairy Industry in 2003 ...



return to higher milk prices was the most identifiable characteristic in the California dairy industry during 2003,

and the manner in which prices returned to higher levels was unusual compared to previous years. The dramatic price increases during 2003 might be attributed to:

- Increased in milk production started slowing down, in part the result of low milk prices over the previous 12 months.
- Idle capacity at cheese plants, stemming from business decisions to reduce production and a reduction in the milk supply, tightened cheese markets.
- The introduction of Cooperatives Working Together (CWT) represents another event that may help to explain higher prices in 2003. The farmer-funded program was conceived as a means for dairy farmers to actively address the growing milk supply. Launched in July 2003, CWT expects to reduce the milk supply by 1.2 billion pounds in a 12-month period by herd retirements, reduced milk marketings and export assistance.

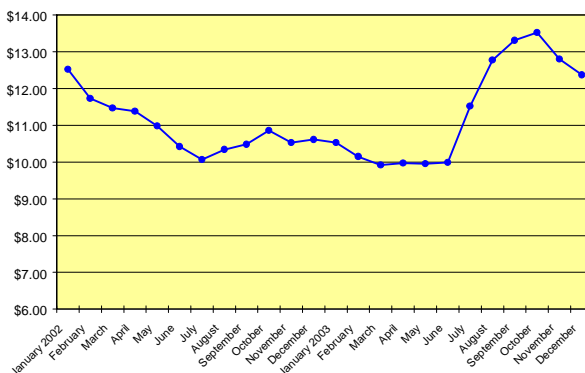


Production of Milk and Dairy Products

On-farm milk production fell back during 2003, losing the momentum that it had gained in the latter months of 2002.

- Milk production increased by over 5 percent in 2002 relative to 2001 and averaged 2.92 billion pounds per month. By the end of 2003, milk production had increased by only 1 percent, averaging 2.95 billion pounds per month.
- Milk is produced in 37 counties in California, however the 68 percent of the milk produced is from Tulare, Merced, Stanislaus, San Bernardino, and Kings counties.

**Average Prices Paid to Producers
January 2002 - December 2003**
(Dollars Per Hundredweight)

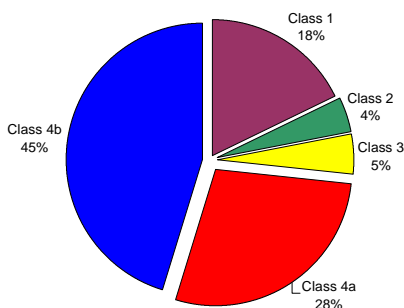


Utilization of milk components in Class 4a and 4b products, namely butter, nonfat powder and cheese, were indicative in how plants converted the increasing milk supply into manufactured dairy products.

- In total, Class 4a and 4b accounted for nearly three-quarters of all milk available on a total solids basis.

- Class 4b (cheese) led all classes in utilization; over 45% of all milk solids available were used to produce cheese.
- While Class 4a production (butter and dried milk products) slipped by 5 percent in 2003, it represented over 28 percent of all milk solids available.

California Utilization of Milk by Class, 2003



- In 2003, Class 1 sales increased by 0.4 percent on a gallon basis, relative to 2002. Sales of Class 1 products have generally been higher every year for the past five years with a total increase by over 2 percent since 1999.

Situation in 2003 and Hearing Results

Throughout 2003, low farm prices reflected the imbalance between the milk supply and commercial demand for milk and dairy products nationwide. Two hearings were held to consider amendments to the pricing formulas:

- A hearing was held in January 2003 focusing on adjustments to manufacturing



cost allowances, product yields, f.o.b. California price adjusters and the inclusion of a whey pricing component in the Class 4b formula. A number of changes were made to the Class 4a and 4b pricing formulas, and in sum total, the changes increased prices paid to producers by \$0.10 per hundredweight.

- A second public hearing was held in June 2004 to consider proposed changes to the milk movement incentives provided for in California, namely transportation allowances and transportation credits addressing the competitiveness of milk movement costs in light of the structural changes in the dairy industry. New transportation allowances were established for producers in Southern California shipping to local higher use plants. Furthermore, transportation credits were increased for milk shipped from Northern California plants to Southern California plants, and condensed skim became eligible to receive transportation credits.



Milk Pooling Plan Adjustments

The surge in cheese prices while butter and powder prices were stagnant brought forth the

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issue of the ability of manufacturing plants to depool.

- A third hearing was held to consider changes to the Milk Pooling Plan that would introduce restrictions on the depooling of plants and of producer milk. As a result of the hearing, the ability of plants and of producer milk to depool and repool on a monthly basis was restricted. Currently, any plant that does not process Class 1 or Class 2 products may change its pool status but its status must be adhered to for a minimum of twelve consecutive months. Insofar as producer milk is concerned, any milk originating from a farm that had been depooled can only be repooled within a twelve-month period if it is physically shipped to a plant with Class 1 or Class 2 usage.

Rankings

- California ranked No. 1 in the nation in milk production, followed by Wisconsin, New York, Pennsylvania, and Idaho.
- California ranked seventh in average milk produced per cow at 20,993 pounds, with the U.S. average milk production per cow at 18,749 pounds.
- California continues to lead the nation in the production of butter, nonfat dry milk, cottage cheese, ice cream, and whey protein concentrate.
- California is second in the nation in total cheese production at 1.83 billion pounds.
- California is the largest producer of Hispanic-style cheese, producing 82 million pounds and 20 different varieties.
- Nearly half of all milk produced in California is made into cheese.



Facts & Highlights

- California's total milk production topped 35 billion pounds, 20 percent of all milk produced in the U.S.
- There are 2,125 dairy farms in California housing 1.7 million milk cows, or approximately one out of every six cows in the U.S. is from California.
- The average size dairy herd in California is 806 cows per farm.
- California is home to 4 of the world's 10 largest cheese producing processing plants including the largest cheese processor in the world.

California Milk Production Average Daily Basis, 1999-2003

